THE REPUBLICAN STUDY COMMITTEE
BUDGET & SPENDING TASK FORCE
Rep. Scott Garrett, Task Force Chairman
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Congressman Scott Garrett (R-NJ), Chairman November 2, 2011

RSC Launches Jobs Through Growth Plan

This morning, RSC Chairman Jordan, RSC Budget & Spending Task Force Chairman Garrett, and other RSC Members launched **The Jobs Through Growth Act (JTGA).**

The Jobs Through Growth Act, developed from ideas within the RSC, across the entire House and Senate GOP Conferences, and throughout the Conservative Movement, is about keeping America open for business. It cuts through red tape; makes the tax code simpler, flatter, and fairer; and tears down barriers to energy production. In short, this plan creates jobs by growing the economy – not the government. See here for a summary and other information on the Jobs Through Growth Act.

Action Item: To become an original cosponsor contact either Brad Watson, Brad.Watson@mail.house.gov or Andrew Shaw, Andrew.Shaw@mail.house.gov.

Quote of the Week:

"U.S. fiscal policy is on an unsustainable path that can't be resolved through minor tinkering… The problem posed by the federal budget deficit not at its current level but on this trajectory… poses a growing risk to the recovery."

-CBO Director Doug Elmendorf, 2010

Interest Spending in Perspective

According to the most recent CBO projections, the country will spend $4.45 trillion on interest on the public debt over the next ten years. This spending is projected to climb from $221 billion in 2011 to $663 billion in 2021, as shown below:

Interest Spending by Year
(In billions of dollars)

Year	Interest Spending	% of GDP
2011	221	1.4
2012	238	1.5
2013	263	1.5
2014	291	1.6
2015	336	1.7
2016	407	1.9
2017	484	2.1
2018	545	2.4
2019	591	2.6
2020	632	2.7
2021	663	2.8

The CBO baseline assumes that $1.2 trillion of deficit reduction will occur via sequestration from the Budget Control Act, that the tax burden will dramatically increase due to expiration of existing tax cut provisions (increasing from 14.9% of GDP in 2011 to 20.9% of GDP in 2021), and that the "doc fix" will expire. CBO estimates that if the Budget Control Act's $1.2 trillion in spending cuts (through either sequestration or the "super-committee") is not realized, the interest spending would be $197 billion higher over ten years.

2012 federal interest spending is:

- *larger* than total federal spending as recently as 1973.
- *larger* than any deficit in U.S. history until 1991.
- ***209.1%*** larger than projected FY 2012 federal spending on unemployment insurance.
- *larger* than 28 of our state economies.
- *larger* than the entire GDP of 80% of the countries in the world.

THE WALL STREET JOURNAL.

Why We Can't Escape the Eurocrisis

By GERALD P. O'DRISCOLL JR.

When is a bailout not a bailout? When the bailor is short of funds. The recently announced debt plan in the European Union comes up short in almost all respects.

The debt crisis is not just an EU problem, but a trans-Atlantic financial crisis. The overwhelming debt problems on either side of the pond are interlinked through the banking system.

First to the EU. The underlying dilemma is that governments have promised their citizens more social programs than can be financed with the tax revenue generated by the private sector. High tax rates choke off the economic growth needed to finance the promises. Economic activity gets driven into the underground economy, where it often escapes taxation.

Nowhere is this truer than in Greece, which has a long history of sovereign defaults in the 19th and 20th centuries. There is a bloated public sector, and competitive private enterprise is hobbled by regulation and government barriers to entry. Successive Greek governments ran chronic budget deficits, and the Greek banks lent to the government. Banks in other EU countries, such as France, lent to the Greek banks.

In Greece and elsewhere in the EU, the banks support the government by purchasing its bonds, and the government guarantees the banks. It is a Ponzi scheme not even Bernie Madoff could have concocted. The banks can no longer afford to fund budget deficits, yet they cannot afford to see governments default. Governments cannot make good on their guarantees of the banks.

Details differ by country. In Ireland, problems began with an overheated property sector that brought down the banks. The economy went into depression, which threw the government's budget into deficit. Further aggravating the deficit was the government's decision to guarantee bank deposits, converting private, financial-sector debt into public-sector debt. The details differ from Greece, but the linkage between the government and the banks is the common factor.

France's growth is weak to nonexistent. Germany's economy has performed well since the recession, but concerns are growing regarding its banks' exposure to greater EU risk. And U.S. banks and financial institutions are exposed to EU banks through funding operations, issuance of credit default swaps and unknown exposure in derivatives markets.

The Federal Reserve has engaged in currency swaps with the European Central Bank to support the dollar needs of EU banks. The ECB deposits euros (or euro-denominated assets) with the Fed and receives dollars in return. It promises to repay dollars plus interest.

The Fed maintains they cannot lose money because the ECB promises to repay the swaps in dollars. And yet, with the world awash in greenbacks, it is unclear why the Fed and the ECB even needed to engage in these transactions—except that it suggests funding problems at some EU banks. And if neither EU banks nor the ECB can secure enough needed dollars in global markets, there is a serious counterparty risk to the Fed. The ECB can print euros but not dollars. Sen. Richard Shelby (R., Ala.), ranking member of the Senate Banking Committee, was correct to raise concerns about the Fed's policy last week. Losses on the Fed's balance sheet hit the U.S taxpayer, not EU citizens.

The sad fact is that there is not enough money in the EU to pay off the public debts incurred by the governments. Most countries have long since squeezed as much tax revenue from their citizens as they can. That is why they have toyed with a tax on financial transactions, the one remaining untaxed activity in all of Europe.

Greece is the first of other sovereign defaults to come. With last week's bailout, the EU leaders might have bought time, perhaps a year. But at some point, the ECB will cave and monetize the debt, leading to euro-zone inflation.

The debt calculus changed dramatically this week with the announcement of a Greek referendum on the bailout agreement next January. If voters reject the agreement, the ultimate outcome is unpredictable.

Americans must not be smug about the suffering of Europeans—our financial system is thoroughly integrated with theirs. Moreover, the International Monetary Fund will most likely be involved in the event of future bailouts and will likely need large funds from its members, which ultimately means the taxpayers.

And, of course, the U.S. has its own large and growing public debt burden. We have not gone as far down the road to entitlements, but we are catching up. If you want to know how the debt crisis will play out here, watch the downward spiral in the EU.

Meanwhile, expect more volatility in financial markets. U.S. traders in particular simply have not grasped the enormity of the EU debt crisis.

Mr. O'Driscoll, a senior fellow at the Cato Institute, is a former vice president of the Federal Reserve Bank of Dallas and later Citibank.